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PP RUEHCHI RUEHCN RUEHDT RUEHHM  
DE RUEHJA #0106 0201007  
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FM AMEMBASSY JAKARTA  
TO RUEHC/SECSTATE WASHDC PRIORITY 1278  
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY  
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS COLL  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEHKO/AMEMBASSY TOKYO 2988  
RUEHBJ/AMEMBASSY BEIJING 5864  
RUEHBY/AMEMBASSY CANBERRA 3553  
RUEHUL/AMEMBASSY SEOUL 5360  
RUEHGP/AMEMBASSY SINGAPORE 6433  
RUEAIIA/CIA WASHDC  
RHEHNSC/NSC WASHDC

UNCLAS JAKARTA 000106

SIPDIS  
SENSITIVE

DEPT FOR E, EAP/MTS, EAP/EP, EEB/IFD/OMA AND EEB/EPPD  
TREASURY FOR IA/MALACHY NUGENT AND TRINA RAND  
USAID/ASIA/AA FOR MARGOT ELLIS  
USAID/EGAT/AA FOR MARK SILVERMAN  
COMMERCE FOR 4430/KELLY  
DEPT PASS FEDERAL RESERVE SAN FRANCISCO FOR CURRAN  
DEPARTMENT PASS EXIM BANK  
SINGAPORE FOR SUSAN BAKER  
TOKYO FOR ROBERT KAPROTH  
DEPT PASS USTR WEISEL, EHLERS

E.O. 12598: N/A

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SUBJECT: INDONESIA GOVERNMENT PROPOSES INCREASING BUDGET DEFICIT TO  
ADDRESS GROWING IMPACT OF FINANCIAL CRISIS

REF: Jakarta 62

11. (SBU) Summary. With the global economic outlook remaining uncertain, the Indonesian government has announced plans to revise its 2009 budget to increase the budget deficit to 2.5% of GDP, up from 1%. If Parliament approves the revised budget, the government plans to carry out additional fiscal stimulus aimed at preventing growing unemployment and other impacts of the global financial crisis, despite declining government revenues. Economic Coordinating Minister and Finance Minister Sri Mulyani Indrawati remains confident that Indonesia will maintain economic growth greater than 3%, and considers the government's revised economic growth rate target of 4.5-5.5% attainable if the government is able to implement timely counter-cyclical measures to maintain domestic demand. End summary.

Preparing for Worst, Hoping for Best with Strong Counter-cyclical Policy

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12. (U) In a January 14 speech to the Indonesian Council on World Affairs, Economic Coordinating Minister and Finance Minister Sri Mulyani Indrawati spoke at length about the government of Indonesia's response to challenging economic conditions in both 2008 and 2009. As a member of the G20, Indonesia has had an opportunity to work with international partners to coordinate responses to the global financial crisis. The Minister expressed confidence that Indonesia will maintain economic growth greater than 3% in 2009. Based on current conditions, she considers the government's revised economic growth rate target of 4.5-5.5% attainable if the government succeeds in implementing timely counter-cyclical measures to boost domestic demand. She expressed caution about the prospects for exports and investment in 2009, given continued declining commodity prices.

13. (U) With President Yudhoyono charging his Cabinet to prepare for the worst, while hoping for the best, Sri Mulyani briefed on the government's proposal to increase the budget deficit to 2.5% of GDP (IDR 132 trillion, equivalent to about USD 11.75 billion), up from a

planned deficit of 1% of GDP (IDR 51 trillion). She said the additional proposed deficit spending in 2009 reflected both anticipated declining revenues and the need of the government to spend more to counter slumping global demand.

Highlighting Record of Strong Economic Performance and Benefits of Reforms

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14. (U) While acknowledging that the government is still trying to measure the depth and duration of the impact of the global financial crisis on the Indonesian economy and to manage those impacts, Sri Mulyani highlighted the government's strong economic performance and reform efforts. In response to those who complain that Indonesia has yet to match pre-Reformasi growth rates, Sri Mulyani cited the current administration's record of economic growth exceeding 6% for the past two years and said Indonesia could enjoy strong economic growth along with freedom and democracy. She expressed particular pride in the results of continuing tax reform, citing Indonesia's more than 3 million new taxpayers in 2008 and state revenues exceeding the 2008 budget target by more than IDR 80 trillion. An appreciative audience of key business leaders expressed strong support for the Minister's role in these achievements.

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